



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

**NEWS RELEASE**

FOR RELEASE

June 5, 2007

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Clarence, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$818,891 for the year ended June 30, 2006. The receipts included \$234,648 in property tax, \$36,352 from local option sales tax, \$341,240 from charges for service, \$182,183 from operating grants, contributions and restricted interest, \$16,873 from unrestricted interest on investments and \$7,595 from other general receipts.

Disbursements for the year totaled \$863,667, and included \$271,097 for public safety, \$114,177 for general government and \$106,466 for culture and recreation. Also, disbursements for business type activities totaled \$219,134

A copy of the report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

# # #



**CITY OF CLARENCE**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2006**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-6
Management's Discussion and Analysis	7-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 14-15
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	B 16-17
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and	
Changes in Cash Balances	C 19
Notes to Financial Statements	20-25
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and	
Changes in Balances - Budget and Actual (Cash Basis) – All	
Governmental Funds and Proprietary Funds	28-29
Notes to Required Supplementary Information – Budgetary Reporting	30
Other Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in	
Cash Balances - Nonmajor Governmental Funds	1 32-33
Schedule of Indebtedness	2 34-35
Note Maturities	3 36
Independent Auditor's Report on Internal Control over Financial	
Reporting and on Compliance and Other Matters Based on an	
Audit of Financial Statements Performed in Accordance with	
<u>Government Auditing Standards</u>	37-38
Schedule of Findings	39-43
Staff	44

**City of Clarence**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
B. Michael Ellingson	Mayor	Jan 2006
Bonnie Hunwardsen	Mayor Pro tem	Jan 2006
Larry Anderson	Council Member	Jan 2006
Peter Kanakares	Council Member	(Resigned)
Larry Havel (Appointed)	Council Member	Jan 2006
Lisa Miller	Council Member	Jan 2008
Noel Mast	Council Member	Jan 2008
<b>(After January 2006)</b>		
Michael L. Blake	Mayor	Jan 2010
Noel Mast	Mayor Pro tem	Jan 2008
Lisa Miller	Council Member	Jan 2008
Larry Havel	Council Member	Jan 2010
Bonnie Hunwardsen	Council Member	Jan 2010
Levi Van Oort	Council Member	Jan 2010
Deb Minar	Clerk	Indefinite
Dean Claney	Treasurer	Indefinite
Russell Dircks	Attorney	Indefinite

**City of Clarence**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarence, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Clarence's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

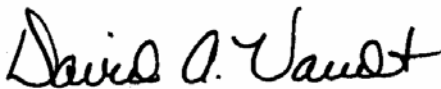
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarence as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 8, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

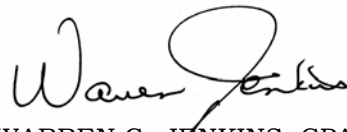
In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2007 on our consideration of the City of Clarence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarence's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 13, 2007



---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

The City of Clarence provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

### **2006 FINANCIAL HIGHLIGHTS**

- The cash basis net assets of the City's governmental activities decreased 7.44%, or approximately \$55,700, primarily due to the purchase of an ambulance and the purchase of land and construction of an ambulance building.
- The cash basis net assets of the City's business type activities increased 36.7%, or approximately \$11,000, due to increased water and sewer rates that took effect in March 2006.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and garbage and recycling operations. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Clarence Ambulance Service Volunteer Association, Inc., 3) the Debt Service Fund and 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage and recycling funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

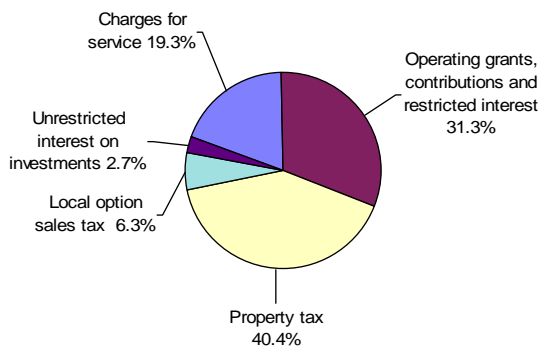
## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$748,932 to \$693,214. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

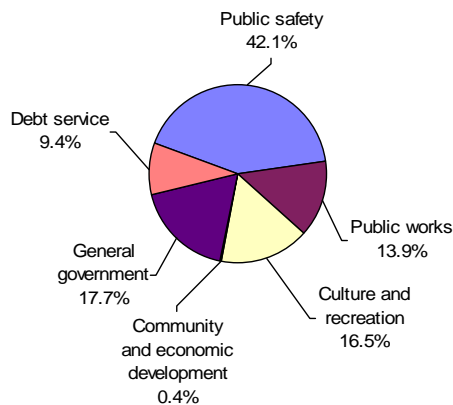
Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 112,107
Operating grants, contributions and restricted interest	182,183
General receipts:	
Property tax	234,648
Local option sales tax	36,352
Unrestricted interest on investments	15,930
Miscellaneous	7,595
Total receipts	<u>588,815</u>
Disbursements:	
Public safety	271,097
Public works	89,856
Culture and recreation	106,466
Community and economic development	2,357
General government	114,177
Debt service	60,580
Total disbursements	<u>644,533</u>
Decrease in cash basis net assets	(55,718)
Cash basis net assets beginning of year	<u>748,932</u>
Cash basis net assets end of year	<u>\$ 693,214</u>

The cash basis net assets for the City's governmental funds decreased primarily due to the purchase of an ambulance and the purchase of land and construction of an ambulance building.

**Receipts by Source**



**Disbursements by Function**



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 97,839
Sewer	74,726
Garbage and recycling	56,568
General receipts:	
Unrestricted interest on investments	943
Total receipts	<u>230,076</u>
Disbursements:	
Water	96,047
Sewer	61,696
Garbage and recycling	61,391
Total disbursements	<u>219,134</u>
Increase in cash basis net assets	10,942
Cash basis net assets beginning of year	<u>29,784</u>
Cash basis net assets end of year	<u>\$ 40,726</u>

The total business type activities cash basis net assets increased from \$29,784 to \$40,726. The increase was primarily due to an increase in water and sewer rates.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Clarence completed the year, its governmental funds reported a combined fund balance of \$693,214, a decrease of approximately \$55,700 below last year's total of \$748,932. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$13,489 to \$233,970 from the prior year balance of \$247,459, primarily due to public safety equipment purchases in fiscal year 2006.
- The Road Use Tax Fund cash balance increased \$23,070 to \$207,554 during the fiscal year, primarily due to less spending for streets.
- The Clarence Ambulance Service Volunteer Association, Inc. Fund cash balance decreased \$65,512, from \$267,366 to \$201,854. This was primarily due to the purchase of land and start of construction for a new ambulance building.
- The Debt Service Fund cash balance decreased slightly, from \$4,767 to \$4,658.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased from a deficit of \$68,162 to a deficit of \$66,370 due to project activity from the past and the lack of rate increases. In March 2006, the City approved water rate increases effective for the April 2006 billings.
- The Sewer Fund cash balance increased from \$63,514 to \$77,487, due primarily to the collection of sewer fees in excess of disbursements and debt repayment.
- The Garbage and Recycling Fund cash balance decreased from \$34,432 to \$29,609, due primarily to the cost of fees paid exceeding the fees collected.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments were approved on October 10, 2005 and April 10, 2006, resulting in an increase in operating disbursements of \$118,404. Public safety was amended for the purchase of a new ambulance and business type activities was amended to cover costs of utilities and supplies.

Even with these budget amendments, the City exceeded the budget in the culture and recreation and business type activities functions.

## DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$505,220 in general obligation capital loan notes and other long-term debt outstanding, compared to \$555,214 outstanding at June 30, 2005, as follows:

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation capital loan notes	\$ 175,000	225,000
Sewer revenue capital loan notes	285,000	307,000
Lease purchase agreement	23,214	45,220
Total	\$ 483,214	577,220

Debt decreased from the prior year as a result of redeeming approximately \$94,000 in debt principal during the year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$198,214 is significantly below its constitutional debt limit of \$1.8 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Clarence's elected and appointed officials considered many factors when preparing the fiscal year 2007 budget. The City's fiscal year 2007 taxable value increased by \$591,282 from the fiscal year 2006 level. The fiscal year 2007 levy is \$10.75 per \$1,000 of taxable valuation, which is a decrease from the \$10.93 per \$1,000 of taxable valuation levy rate in fiscal year 2006. The fiscal year 2007 budget includes total receipts of \$840,783 and disbursements of \$776,286.

At the time these financial statements were prepared and audited, the City was aware of the following existing circumstances that could affect its financial health in the future.

- The City applied for a Community Development Block grant totaling \$330,500 for construction of a water tower, but was not awarded the funding.
- The Enterprise, Water Fund had a deficit balance of \$66,370 at June 30, 2006. The deficit will be eliminated with customer collections and new rates that were approved in March 2006 and took effect in April 2006. In addition, the citizens approved a local sales and services tax at the rate of one percent, to be effective from July 1, 2006 until expiration on June 30, 2016. Revenues from the imposition of the tax shall be allocated as follows: 25% for property tax relief and 75% for water utility improvements and any other lawful purpose as determined by the City Council. Utilizing local sales and services tax for the Water Fund has resulted in a reduction in the deficit in the Enterprise Fund.

- The City of Clarence has plans for replacing a block of sewer line during fiscal year 2007 at an estimated cost of \$60,000. The City intends to use the competitive quotation process on this project. These costs will be financed through a bank loan or bond issue.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Minar, City Clerk, 411 Lombard Street, PO Box 418, City of Clarence, Iowa 52216-0418.

## **Basic Financial Statements**

City of Clarence

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

		Program Receipts	
		Charges for	Operating Grants, Contributions and Restricted Interest
	Disbursements	Service	
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 271,097	101,630	50,415
Public works	89,856	4,388	84,395
Culture and recreation	106,466	5,312	47,373
Community and economic development	2,357	-	-
General government	114,177	777	-
Debt service	60,580	-	-
Total governmental activities	644,533	112,107	182,183
Business type activities:			
Water	96,047	97,839	-
Sewer	61,696	74,726	-
Garbage and recycling	61,391	56,568	-
Total business type activities	219,134	229,133	-
Total	\$ 863,667	341,240	182,183
<b>General Receipts:</b>			
Property tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Unrestricted interest on investments			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Streets			
Debt service			
Other purposes			
Unrestricted			
<b>Total cash basis net assets</b>			

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(119,052)	-	(119,052)
(1,073)	-	(1,073)
(53,781)	-	(53,781)
(2,357)	-	(2,357)
(113,400)	-	(113,400)
(60,580)	-	(60,580)
(350,243)	-	(350,243)
-	1,792	1,792
-	13,030	13,030
-	(4,823)	(4,823)
-	9,999	9,999
(350,243)	9,999	(340,244)
174,176	-	174,176
60,472	-	60,472
36,352	-	36,352
15,930	943	16,873
7,595	-	7,595
294,525	943	295,468
(55,718)	10,942	(44,776)
748,932	29,784	778,716
\$ 693,214	40,726	733,940
\$ 207,554	-	207,554
4,658	41,416	46,074
247,032	-	247,032
233,970	(690)	233,280
\$ 693,214	40,726	733,940

City of Clarence

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Clarence Ambulance Service Volunteer Association, Inc.
Receipts:			
Property tax	\$ 170,210	-	-
Other city tax	3,967	-	-
Licenses and permits	1,367	-	-
Use of money and property	22,059	-	6,486
Intergovernmental	27,902	84,395	-
Charges for service	95,660	-	-
Miscellaneous	19,609	-	9,040
Total receipts	340,774	84,395	15,526
Disbursements:			
Operating:			
Public safety	205,606	-	55,928
Public works	28,531	61,325	-
Culture and recreation	65,054	-	-
Community and economic development	2,357	-	-
General government	77,825	-	-
Debt service	-	-	-
Total disbursements	379,373	61,325	55,928
Excess (deficiency) of receipts over (under) disbursements	(38,599)	23,070	(40,402)
Other financing sources (uses):			
Operating transfers in	25,110	-	-
Operating transfers out	-	-	(25,110)
Total other financing sources (uses)	25,110	-	(25,110)
Net change in cash balances	(13,489)	23,070	(65,512)
Cash balances beginning of year	247,459	184,484	267,366
Cash balances end of year	\$ 233,970	207,554	201,854
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	-	-
Unreserved:			
General fund	233,970	-	-
Special revenue funds	-	207,554	201,854
Permanent fund	-	-	-
Total cash basis fund balances	\$ 233,970	207,554	201,854

See notes to financial statements.

Debt Service	Nonmajor	Total
59,779	-	229,989
692	36,352	41,011
-	-	1,367
-	125	28,670
-	-	112,297
-	-	95,660
-	51,172	79,821
60,471	87,649	588,815
-	9,563	271,097
-	-	89,856
-	41,412	106,466
-	-	2,357
-	36,352	114,177
60,580	-	60,580
60,580	87,327	644,533
(109)	322	(55,718)
-	-	25,110
-	-	(25,110)
-	-	-
(109)	322	(55,718)
4,767	44,856	748,932
4,658	45,178	693,214
4,658	-	4,658
-	-	233,970
-	42,178	451,586
-	3,000	3,000
4,658	45,178	693,214

**City of Clarence**

City of Clarence

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise			
	Water	Sewer	Garbage and Recycling	Total
Operating receipts:				
Charges for service	\$ 97,839	74,726	56,568	229,133
Operating disbursements:				
Business type activities	96,047	25,605	36,904	158,556
Excess of operating receipts over operating disbursements	1,792	49,121	19,664	70,577
Non-operating receipts (disbursements):				
Interest on investments	-	943	-	943
Debt service	-	(36,091)	(24,487)	(60,578)
Total non-operating receipts (disbursements)	-	(35,148)	(24,487)	(59,635)
Net change in cash balances	1,792	13,973	(4,823)	10,942
Cash balances beginning of year	(68,162)	63,514	34,432	29,784
Cash balances end of year	\$ (66,370)	77,487	29,609	40,726
<b>Cash Basis Fund Balances</b>				
Reserved for debt service	\$ -	41,416	-	41,416
Unreserved	(66,370)	36,071	29,609	(690)
Total cash basis fund balances	\$ (66,370)	77,487	29,609	40,726

See notes to financial statements.

City of Clarence

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

The City of Clarence is a political subdivision of the State of Iowa located in Cedar County. It was first incorporated in 1859 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and garbage and recycling utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Clarence has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

**Blended Component Units**

The Clarence Ambulance Service Volunteer Association, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of assisting the Emergency Medical Service Department in the execution and performances of responsibilities to the citizens of Clarence with regard to the study and advancement of emergency medical response. In accordance with criteria set by the Governmental Accounting Standards Board, the Clarence Ambulance Service Volunteer Association, Inc. meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

The Clarence Firefighters Association, Inc. has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Fire Department. In accordance with criteria set by the Governmental Accounting Standards Board, the Clarence Firefighters Association, Inc. meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Cedar County Assessor's Conference Board, Cedar County Emergency Management Commission, Cedar County Joint E911 Service Board and Cedar County Solid Waste Disposal Commission.

### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Clarence Ambulance Service Volunteer Association, Inc. is used to account for donations and capital disbursements for the Clarence Ambulance Service.

The Debt Service Fund is utilized to account for the payment of principal and interest on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage and Recycling Fund accounts for the operations and maintenance of the City's garbage and recycling system.

C. Measurement Focus and Basis of Accounting

The City of Clarence maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are incurred, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.



## (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

## (3) Notes Payable

Annual debt service requirements to maturity for general obligation capital loan notes and sewer revenue capital loan notes are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Sewer Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 50,000	7,980	23,000	12,939	73,000	20,919
2008	40,000	5,755	24,000	11,895	64,000	17,650
2009	40,000	3,955	25,000	10,805	65,000	14,760
2010	45,000	2,115	26,000	9,670	71,000	11,785
2011	-	-	28,000	8,490	28,000	8,490
2012 - 2016	-	-	159,000	22,337	159,000	22,337
Total	\$ 175,000	19,805	285,000	76,136	460,000	95,941

### Sewer Revenue Capital Loan Notes

On May 30, 1996, the City entered into an agreement with the Iowa Finance Authority, the Department of Natural Resources and Wells Fargo Bank for issuance of \$477,000 of sewer revenue capital loan notes with interest at 4.54% per annum. The notes were issued pursuant to the provisions of Sections 384.24A and 384.82 of the Code of Iowa for the purpose of paying costs of construction improvements to the municipal sanitary sewer system. On October 9, 2006, the City, the Iowa Finance Authority and Wells Fargo Bank approved reducing the interest rate to 3.00% per annum on the outstanding principal amount after June 1, 2006 for the remainder of the life of the note.

The resolution providing for the issuance of the sewer revenue capital loan notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

- (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers to a sewer revenue reserve account shall be made until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

**(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$10,250, equal to the required contribution for the year.

**(5) Interfund Transfer**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Clarence Ambulance Service	
	Volunteer Association, Inc.	\$ 25,110

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(6) Deficit Balance**

The Enterprise, Water Fund had a deficit balance of \$66,370 at June 30, 2006. The deficit will be eliminated with customer collections. New rates were approved in March 2006 and took effect April 2006.

**(7) Risk Management**

The City is exposed to various risks related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage in the year ended June 30, 2006.

**(8) Accounting Change**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

**(9) Lease Purchase Agreement**

On June 15, 2001, the City entered into a lease purchase agreement to purchase a garbage truck for \$104,415. The lease purchase agreement bears 5.39% per annum interest, matures on July 15, 2006 and requires five annual payments of \$24,487 for principal and interest beginning July 15, 2002. The unpaid balance at June 30, 2006 was \$23,214.

**City of Clarence**

### **Required Supplementary Information**

City of Clarence  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 229,989	-	-
Other city taxes	41,011	-	-
Licenses and permits	1,367	-	-
Use of money and property	28,670	943	6,486
Intergovernmental	112,297	-	-
Charges for service	95,660	229,133	-
Miscellaneous	79,821	-	22,651
Total receipts	<u>588,815</u>	<u>230,076</u>	<u>29,137</u>
Disbursements:			
Public safety	271,097	-	65,491
Public works	89,856	-	-
Culture and recreation	106,466	-	-
Community and economic development	2,357	-	-
General government	114,177	-	-
Debt service	60,580	-	-
Business type activities	-	219,134	-
Total disbursements	<u>644,533</u>	<u>219,134</u>	<u>65,491</u>
Excess (deficiency) of receipts over (under) disbursements	(55,718)	10,942	(36,354)
Other financing, net	-	-	(25,110)
Balances beginning of year	748,932	29,784	284,879
Balances end of year	<u>\$ 693,214</u>	<u>40,726</u>	<u>223,415</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
229,989	228,923	228,923	1,066
41,011	55,490	55,490	(14,479)
1,367	1,525	1,525	(158)
23,127	15,815	15,815	7,312
112,297	107,843	154,595	(42,298)
324,793	315,650	315,650	9,143
57,170	15,500	15,500	41,670
789,754	740,746	787,498	2,256
205,606	175,847	269,149	63,543
89,856	97,724	100,410	10,554
106,466	67,140	69,556	(36,910)
2,357	3,000	3,000	643
114,177	120,135	120,135	5,958
60,580	60,580	60,580	-
219,134	194,696	214,696	(4,438)
798,176	719,122	837,526	39,350
(8,422)	21,624	(50,028)	41,606
-	-	-	-
(25,110)	-	-	25,110
493,837	464,877	464,877	28,960
510,525	486,501	414,849	95,676

City of Clarence

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$118,404. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the culture and recreation and business type activities functions.



### **Other Supplementary Information**

City of Clarence

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006



	Special Revenue			
	Local Option	Library Gifts	Clarence Fire	Clarence
	Sales Tax	and Bequests	Fighters	Lincoln Highway
			Association, Inc.	Festival
Receipts:				
Other city tax	\$ 36,352	-	-	-
Use of money and property	-	91	-	-
Miscellaneous	-	1,187	13,611	18,412
Total receipts	36,352	1,278	13,611	18,412
Disbursements:				
Operating:				
Public safety	-	-	9,563	-
Culture and recreation	-	732	-	22,681
General government	36,352	-	-	-
Total disbursements	36,352	732	9,563	22,681
Net change in cash balances	-	546	4,048	(4,269)
Cash balances beginning of year	-	3,312	17,513	13,426
Cash balances end of year	\$ -	3,858	21,561	9,157
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	\$ -	3,858	21,561	9,157
Permanent fund	-	-	-	-
	\$ -	3,858	21,561	9,157

See accompanying independent auditor's report.

	Permanent	
Clarence	Mabel L.	
Community Park	Woods	
Booster Club	Cemetery Trust	Total
-	-	36,352
34	-	125
17,962	-	51,172
17,996	-	87,649
-	-	9,563
17,999	-	41,412
-	-	36,352
17,999	-	87,327
(3)	-	322
7,605	3,000	44,856
7,602	3,000	45,178
7,602	-	42,178
-	3,000	3,000
7,602	-	42,178

---

City of Clarence  
Schedule of Indebtedness  
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Water refunding	May 1, 1999	4.45-4.70%	\$ 475,000
Sewer revenue capital loan notes:			
Sewer improvements	May 30, 1996 	4.54% *	\$ 477,000
Lease purchase agreement:			
Garbage truck	Jun 15, 2001 	5.39%	\$ 104,515

\* Effective June 1, 2006, the interest rate was reduced to 3.00%.

See accompanying independent auditor's report.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
225,000	50,000	175,000	10,180
307,000	22,000	285,000	13,938
45,220	22,006	23,214	2,481

**Schedule 3**

## City of Clarence

## Note Maturities

June 30, 2006

Year Ending June 30,	General Obligation Capital Loan Notes	
	Water Refunding	
	Issued May 1, 1999	
	Interest	
	Rates	Amount
2007	4.45%	\$ 50,000
2008	4.50	40,000
2009	4.60	40,000
2010	4.70	45,000
Total		\$ 175,000

Year Ending June 30,	Sewer Revenue Capital Loan Notes	
	Sewer Improvements	
	Issued June 21, 1995	
	Interest	
	Rates	Amount
2007	3.00%	\$ 23,000
2008	3.00	24,000
2009	3.00	25,000
2010	3.00	26,000
2011	3.00	28,000
2012	3.00	29,000
2013	3.00	30,000
2014	3.00	32,000
2015	3.00	33,000
2016	3.00	35,000
Total		\$ 285,000

See accompanying independent auditor's report.



**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarence, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 13, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Clarence's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Clarence's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items (A) and (B) are material weaknesses.

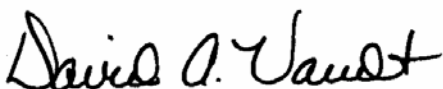
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Clarence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Clarence and other parties to whom the City of Clarence may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Clarence during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 13, 2007



City of Clarence  
Schedule of Findings  
Year ended June 30, 2006

**Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas for the City, the Clarence Community Park Booster Club and the Clarence Lincoln Highway Festival, as applicable:
- (1) Accounting system – performing all general accounting functions, controlling all data input and output and custody of assets.
  - (2) Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
  - (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
  - (4) Long term debt – recording and reconciling.
  - (5) Receipts – collecting, depositing, journalizing, reconciling and posting.
  - (6) Utility and Ambulance receipts – billing, collecting, depositing, posting and reconciling.
  - (7) Disbursements – purchasing, check writing, recording and reconciling, check signing and posting.
  - (8) Payroll – preparation, distribution and posting.
  - (9) Financial reporting – preparing, reconciling and distributing.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer and the date of the review.

Response – The City will begin to utilize a finance committee to review financial and utility statements.

Conclusion – Response acknowledged. The City should also ensure duties are segregated to the extent possible.

City of Clarence

Schedule of Findings

Year ended June 30, 2006

- (B) Reconciliation of Utility and Ambulance Billings, Collections and Delinquencies – Although information is available, utility and ambulance billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility and ambulance billings, collections and delinquencies for each billing cycle and to reconcile utility and ambulance collections to bank deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The review should be documented by having the independent reviewer initial and date the reconciliation.

Response – The Clerk and ambulance secretary will begin to do reconciliations. These will be reviewed by the appropriate committee.

Conclusion – Response acknowledged. In addition, the review of the reconciliations should be evidenced by the reviewer's initial and date.

- (C) Separately Maintained Records – The Clarence Community Park Booster Club and the Clarence Lincoln Highway Festival maintain separate accounting records pertaining to these operations. These transactions and the resulting balances are not included in the City's accounting records

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose". For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response – The City will work to bring the Park Club in under ordinance as a Park Board and account for their funds. The City will encourage the Festival to join with the Park Board or else form a separate non-profit organization.

Conclusion – Response accepted.

- (D) Clarence Community Park Booster Club and Clarence Lincoln Highway Festival Disbursements – Minute records are not available to support the approval of bills to be paid and checks require only one signature. In addition, supporting invoices were not always available to support disbursements and those available were not always cancelled to prevent subsequent use for payment.

Recommendation – A minute record should be maintained to support the bills approved by each organization. Invoices and supporting documentation should be retained to support each disbursement and the supporting invoices and supporting documentation should be cancelled by documenting the check number and date paid to prevent possible duplicate payment(s). Checks should be prepared and signed after review of the supporting invoices. The signed check, along with supporting invoices and documentation, should be provided to an independent individual for review and countersignature.

City of Clarence

Schedule of Findings

Year ended June 30, 2006

Response – The City will ask the Park Board to turn over check writing duties to the City Clerk as part of the ordinance and request copies of meeting minutes.

Conclusion – Response accepted.

- (E) Information System – During our review of internal control, the existing control activities in the City's computer based system were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer based system were noted:

The City does not have written policies for:

- 1) Requiring password changes every 60 to 90 days, which the system does not require, and requiring users to maintain password privacy and confidentiality.
- 2) Requiring a time out and/or log off function or screen saver password to protect a terminal if left unattended.
- 3) Requiring user profiles to help limit access to programs to those who have a legitimate need.
- 4) Usage of City owned computer equipment and software.
- 5) Logging off unattended computer(s).

Recommendation – The City should develop written policies addressing each of the above items in order to improve the City's control over its information system.

Response – The City will work to develop a more comprehensive computer policy.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Clarence  
Schedule of Findings  
Year ended June 30, 2006

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the culture and recreation and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should be amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Response – The City will work to amend the budget before spending more than is budgeted.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Bonnie Hunwardsen, Council Member, Husband owns Hunwardsen Equipment	Repairs and parts	\$ 1,462
Lisa Miller, Council Member, Owner of Shirts N Stuff	Uniforms and hats	323

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the minutes but were not.

The minutes for the budget work session meeting on January 17, 2006 were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.

City of Clarence

Schedule of Findings

Year ended June 30, 2006

Additionally, the Clarence Community Park Booster Club and Clarence Lincoln Highway Festival groups did not always have minutes available to support business transacted.

Recommendation – The City should publish minutes as required by the Code of Iowa. Also, the Clarence Community Park Booster Club and the Clarence Lincoln Highway Festival organizations should maintain a minutes record and document all significant actions as required by Chapter 372.13 of the Code of Iowa.

Response – The Clerk will try to publish all minutes within 15 days. The City will encourage the Park Board and Festival to maintain detailed minutes.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- (8) Deficit Balance – The Enterprise, Water Fund had a deficit balance of \$66,370 at June 30, 2006.

Recommendation – The City should investigate alternatives and take steps to eliminate the deficit in order to return the Enterprise, Water Fund to a sound financial position.

Response – The City will utilize new rates and local option sales tax to continue to reduce the deficit in the Water Fund.

Conclusion – Response accepted.

- (9) Sewer Revenue Capital Loan Notes – No instances of non-compliance with the provisions of the City's sewer revenue capital loan notes resolution were noted.

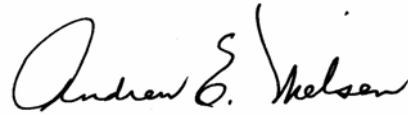
---

City of Clarence

Staff

This audit was performed by:

Suzanne R. Hanft, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
Carrie L. Livingston, CPA, Staff Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA  
Deputy Auditor of State